

Message Text

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ACTION AF-18

INFO OCT-01 EUR-25 ADP-00 IO-13 STR-08 CEA-02 CIAE-00

DODE-00 PM-07 H-03 INR-10 L-03 NSAE-00 NSC-10 PA-03

RSC-01 PRS-01 SS-15 USIA-15 AID-20 COME-00 EB-11

FRB-02 TRSE-00 XMB-07 OPIC-12 CIEP-02 LAB-06 SIL-01

OMB-01 RSR-01 /198 W

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R 231046Z AUG 73 ZDK
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TO SECSTATE WASHDC 8506
INFO AMEMBASSY BERN
AMEMBASSY LONDON
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AMCONSUL CAPE TOWN
AMCONSUL DURBAN
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E.O. 11652: N/A

TAGS: EFIN, ECON, SOCI, SF

SUBJ: FINANCE MINISTER'S INTERVIEW ON GOLD AND THE ECONOMY

SUMMARY: DIEDERICH'S SEES SLOWLY DECLINING ROLE FOR GOLD AS
SDR'S TAKE OVER AS BASE FOR NEW SYSTEM. HE COMPLAINS OF LACK
OF RESPONSE BY PRIVATE SECTOR TO "GREEN LIGHT" ON TRAINING
AFRICANS AND SUGGESTS MORE GOVERNMENT INITIATIVE IN PROSPECT.
CONFIRMS DEDICATION TO SUSTAINED GROWTH POLICY, BACKED UP BY
HIGH LEVEL OF RESERVES, AND PREDICTS BOOM YEAR FOR SA IN 1974.
COMMENT: RELAXATION OF PUBLIC DEFENSE OF GOLD AS ONLY FEASIBLE
STORE OF VALUE HAS BEEN IN EVIDENCE FOR SOME TIME. SA ECONOMY
SEEMS IN FACT ON UPWARD TREND IN CYCLE. PROCLAIMED HIGH POLICY
FOR AFRICAN TRAINING AND MORE SKILLED JOBS STILL TENDS BE
FRUSTRATED IN SLOW BUREAUCRATIC EXECUTION. END SUMMARY.

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1. PRETORIA NEWS AUGUST 22 INTERVIEW MINFIN DIEDERICH'S WITH ECONOMIC REPORTER (PRESUMABLY FLEUR DE VILLIERS) HEADLINED "DR. D ACCEPTS THAT GOLD'S ROLE WILL DIMINISH". ALSO QUOTED DIEDERICH'S "IT WOULD HAVE BEEN WRONG FOR US TO SAY SO AT THE TIME BUT IT (THE PRICE OF GOLD) ROSE TOO HIGH TOO FAST. IF IT WENT TOO HIGH WE COULD LOSE OUR MAJOR MARKETS FOR INDUSTRIAL GOLD."

2. DIEDERICH'S SAID WORLD WAS DETERMINED GO IN DIRECTION OF SDRS AS BASE OF NEW SYSTEM. NEVERTHELESS HE TOOK COMFORT THAT EVERY RESPONSIBLE MONETARY LEADER SAYS SDRS MUST TAKE OVER ROLE GRADUALLY. HE SAW GOLD ACCEPTED FOR "FORESEEABLE FUTURE", BUT "RELATIVE ROLE WILL DIMINISH AS INTERNATIONAL LIQUIDITY IS EXPANDED".

3. HE FORESAW "EFFECTIVE" RISE IN OFFICIAL PRICE BECAUSE AUTHORITIES DID NOT WISH SEE CENTRAL BANKS' GOLD STOCK IMMOBILIZED AT PRESENT OFFICIAL PRICE. HE THOUGHT SOLUTION WOULD BE ALLOWING CENTRAL BANKS BUY AND SELL GOLD AT MARKET RELATED PRICE, BRINGING IT BACK IN CIRCULATION AND ESTABLISHING ITS VALUE AS MONETARY METAL. HE ALSO PREDICTED FREE MARKET PRICE RECOVERY ON GROUNDS COUNTRIES WOULD NOT FIGHT INFLATION WITH MONETARY MEASURES AT RISK DEFLATION AND UNEMPLOYMENT.

4. SEPARATE ARTICLE FROM SAME INTERVIEW STATED GOVERNMENT WOULD TAKE NEW MOVES TO IMPROVE BLACK WORKER TRAINING BY END OF YEAR. DIEDERICH'S SAID HE "NOT SATISFIED" WITH WAY INDUSTRIALISTS HAD RESPONDED TO "GREEN LIGHT" ON TRAINING. ADDED "ONLY WHEN YOU HAVE A SOUND DOMESTIC MARKET CAN YOU HAVE A GOOD EXPORT MARKET. I AM THEREFORE ALL FOR HIGHER (BLACK) WAGES IF LINKED TO PRODUCTIVITY AS THEY WILL BRING A HIGHER DEMAND FOR GOODS."

5. ON SOUTH AFRICAN ECONOMY GENERALLY, DIEDERICH'S EMPHASIZED THAT HE HAD EMBARKED ON POLICY OF SUSTAINED GROWTH AND RULED OUT REINTRODUCTION CONSUMPTION CURBS SUCH AS IN 1970. POINTED TO FACT RESERVES ARE VERY HIGH IN CONTRAST TO DANGEROUSLY DECLINING TREND IN EARLIER PERIOD. CONFIRMED WILLINGNESS RUN CURRENT ACCOUNT DEFICIT TO FINANCE MATERIALS AND INVESTMENT. SAW INFLATION AS LEVELING OFF AND STATED HE UNWILLING KILL GROWTH TO KILL INFLATION. SAID COULD AFFORD TO WAIT OUT INFLATION TREND. PREDICTED REAL BOOM YEAR FOR 1974.
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6. COMMENT: ALTHOUGH PRESS REPORT SAW DIEDERICH'S REMARKS ON GOLD AS "STARTLING ADMISSIONS," THIS POSITION CONSISTENT WITH OBSERVATIONS IN PRIVATE BY RESERVE BANK AND OTHER SA FINANCE FOR PAST SEVERAL MONTHS. DIEDERICH'S OPTIMISTIC PICTURE OF ECONOMIC PROSPECTS IS CONSISTENT WITH PRESENT INDICATORS. SA OFFICIALS HAVE PRIVATELY EXPRESSED PUZZLEMENT THAT ECONOMY HAS BEEN SLOW TO RESPOND BUT, SHORT OF SOME SHOCK, THE UPWARD MOVEMENT IN

THE CYCLE NOW RPT NOW SEEMS CLEARLY ESTABLISHED. DIEDERICH'S
REMARKS ON AFRICAN TRAINING SEEM TO HIGHLIGHT AN APPARENT
FRUSTRATION BETWEEN HIGHER POLICY IMPULSES AND BUREAUCRATIC
EXECUTION. BUSINESS MANAGERS STILL REPORT CUMBERSOME ROAD BLOCKS
TO THEIR INITIATIVES TO FIND AND EMPLOY MORE SKILLED AFRICAN
WORKERS OR TO DEAL WITH RED TAPE IN TRAINING INITIATIVES.
MORE THAN TWO YEARS AFTER THE RIEKERT REPORT AND WHITE PAPER,
PERFORMANCE ON PROMISES THEN OF GREATER FLEXIBILITY IN THESE
AREAS REMAINS SLUGGISH.
SMITH

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